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Board of Directors
Thirteenth Annual Study
February 1986

KORN/FERRY INTERNATIONAL

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Introduction

This has been a very difficult year for directors, and it may be just the beginning. Based on the results of our Thirteenth Annual Board of Directors Study, we think that corporations are going to find it much harder to attract and retain qualified directors than they do today.

Let's look at the disturbing facts reported:

1. Sixty percent of the companies polled said that recent court decisions affecting overall responsibilities of corporate boards are creating potentially dangerous precedents, inhibiting a company's ability to attract new directors. Thirty-four percent said they thought recent court decisions would hurt them in retaining existing directors.

2. Sixty-one percent of the companies believe that the current emphasis on director liability is not a temporary phenomenon.

3. Nearly 62 percent of the chief executive officers polled say they will reduce the number of boards on which they serve. And 96 percent said they will reduce the number of directorships they accept because of increased liability. Sixty-nine percent said they would limit their board acceptances because of exposure to public censure, while nearly 67 percent said a directorship just takes too much of their time.

4. Not surprisingly, 52 percent of the companies polled reported that the sharp rise in directors' and officers' insurance premiums will make it more difficult to recruit high-level outside directors. In fact, companies surveyed said they are paying, on average, 362 percent more for D&O coverage this year than last, and some companies cannot get D&O insurance protection at any price.

5. Finally, companies reported that one out of five qualified candidates turned down an invitation to serve as director.

From a company's perspective, this is particularly stressful news. Why? Because the board can no longer play a passive role in corporate governance. Today, more than ever, the board must assume an activist role—a role that is protective of shareholder rights, sensitive to

communities in which the company operates, responsive to the needs of company vendors and customers, and fair to its employees. And if directors are not willing to initiate appropriate action, we have learned from recent experience that corporate constituent groups (i.e., shareholders) will take action into their own hands and do everything within their power to protect their interests.

On the flip side of the coin, one has to ask why anyone would want to be a director. This seems to be the most frequently asked and one of the most difficult questions to answer.

Directorships Politely Refused

Increasingly, board invitations offered to outsiders are politely refused. Excuses come in many forms. Sixty percent say the time commitment board membership demands is too great. Twenty-nine percent say they already sit on too many boards. Twenty-one percent say new directorships represent a conflict of interest. But the truth, we believe, is that more and more executives are getting over the initial flattery of the invitation and asking themselves, "Who needs this?"

In addition to all the potential liability a director faces, companies are asking them to spend what seems to be an extraordinary amount of time in order to perform the duties of the board. Our latest survey shows that the average director spends 114 hours a year for each board seat he or she holds; and for companies with revenues of $5 billion and over, the time is 145 hours.

Fees paid to directors seem insignificant when compared to the potential liability. In 1985 the average earnings reported for directors was $19,500, up from $18,800 in 1984. Directors of billion dollar companies were paid somewhat better, averaging $23,600, while directors of $5 billion plus companies were paid an average $25,900.

Put another way, the risks may not justify the rewards for serving. We predict the day is coming when there may well be an acute shortage of qualified outside directors, which, we think, will drive directors' fees up substantially.

Disquieting Issues and No Easy Choices

While we would like to look into a crystal ball and foresee the trends that may occur in the short term, that is obviously not possible given all the confusion in the marketplace. Moreover, we must consider some complex and troublesome questions.

- How will boards deal with increasing liability issues and lack of D&O insurance (or the escalating cost of D&O insurance)?
- Should companies consider a major overhaul of board fees to be more commensurate with increased director responsibilities?

- Should companies search for new sources of directors in order to fill the projected shortages stemming from the retirements and resignations we project?
- What can companies do to reduce the fear of becoming a director, while at the same time remaining accountable to their constituents?
- Should companies reduce the size of their boards?
- How can companies better manage their directors' time to maximize their role as board members? Should committees play an increasing role?
- What should corporate America do to communicate better and to avoid the need for legislative initiatives to protect their directors?

In conclusion, we really do not think that directors are becoming endangered, but the concern is very real, and industry must do something to halt the problem so that directors will provide the appropriate corporate guidance required of them by various constituents.

Lester B. Korn
Chairman

Richard M. Ferry
President

February 20, 1986

SUMMARY OF FINDINGS—THIRTEENTH ANNUAL STUDY

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 14 directors, an increase of one member over the average of 13 reported since our study's inception in 1973.

The largest boards are found among banks and other financial institutions, which now average 20 members, up from 19 members in 1984. Retailers showed a marked decrease in board size, down from the 16 directors reported last year to 13 directors as reported in previous years.

Smaller companies with revenues of under $200 million have an average of only 10 board members, while the largest companies—$5 billion and over—average 14 directors.

2. Inside Directors vs. Outside Directors (Table 1)

For the eighth consecutive year, corporations surveyed reported an average of four inside directors. Outside directors increased by one to an average of 10, indicating a continued strong and growing preference for outside leadership.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 2)

Eighty percent of this year's respondents reported that their chairman is also the chief executive officer, up from 77 percent last year. This combination of responsibilities occurs most frequently among retailers (89 percent) and among the larger companies, $5 billion and over (88 percent). Thirty-six percent of the respondents report that their chief executive officer is also their chief operating officer, a decrease from 42 percent in 1984.

4. Board Composition (Table 3)

Companies continue to draw directors from three primary sources: senior executives of other companies (82 percent), retired executives of other companies (68 percent) and academicians (55 percent). The average board seats five senior executives, well above the average of only one or two from other sources. Attorneys continue to decline as representatives on all boards as do commercial bankers. The "professional" director is represented on 28 percent of all corporate boards, a significant increase from 18 percent reported last year (Table 3A).

The number of boards seating a woman director remained constant at 45 percent. Representation by ethnic minorities declined slightly, from 26 percent reported in 1984 to 25 percent this year. While 45 and 25 percent of boards, respectively, report seating women and minorities, the total population of directors considered in the survey consists of an estimated four percent women and three percent minorities.

Both women and minority directors continue to come primarily from the ranks of academia and senior officers of other companies, but their representation has shifted with academicians leading significantly over outside senior executives (Table 3B).

For the first time, retailers report the highest number of women directors (62 percent), followed by banks and other financial institutions (61 percent). As in the past, banks and other financial institutions have the greatest number of minorities (52 percent).

Academicians, whose representation has increased steadily since our survey began, are widely sought as outside directors. Of all respondent boards, 55 percent report seating a member of academia.

5. Committees (Table 4)

The most prevalent standing committees in use remain audit (97 percent), compensation (82 percent), executive (78 percent) and nominating (59 percent) (Table 4A).

The use of the executive and nominating committees in particular can be correlated to company size. For example, the executive committee is less prevalent in smaller industrials (under $200 million)—66 percent compared with the overall average of 78 percent. And while 75 percent of the $5 billion-and-over companies have a nominating committee, only 36 percent of the smaller industrials report its use.

Of all companies that have a nominating committee, 22 percent report its active participation in the management succession process. Respondents cite the nominating committee as often as the executive committee as a participant in the management succession process. However, the compensation/personnel committee retains the predominant role in management succession. Of those boards that have a nominating committee, 64 percent report that the committee also plays a significant role in selecting new directors to fill board vacancies. This figure was up from 57 percent in 1984.

Thirty-seven percent of the respondents now have a benefits committee, up from 30 percent five years ago (Table 4A). The benefits committee is most common among smaller industrials (47 percent). The finance committee, on the other hand, is most often the province of the larger corporations. Fifty-one percent of the billion dollar corporations report its use as opposed to only 38 percent of all respondents.

Along with overall board representation, committee composition has also shifted to a greater reliance on outside directorship. The ratio of outside to inside directors, along with the average number of directors, has increased for the executive and public affairs committees with each gaining one member. The benefits committee has not only increased its number of outside directors by one, but it has also eliminated the presence of inside

directors altogether. In addition to the benefits committee, audit and compensation committees continue to be composed entirely of outside directors (Table 4B).

The average number of committee meetings per year ranges from two to five. Finance committees met most frequently, at five times a year. Holding the fewest number of meetings at two per year were the nominating, corporate ethics and science/technology committees. The public affairs, benefits and audit committees met three times. The number of executive committee meetings increased to four among all respondents (Table 4C). It rose to seven meetings for banks and other financial institutions.

6. Compensation (Table 5)

The annual plus per-meeting fee remains the generally accepted form of compensation for outside directors, with 86 percent of this year's respondents reporting its use (Table 5A). This method is most widely used by banks and other financial institutions (90 percent).

As in the past, industrials with under $200 million in revenues lead all respondents in adhering to the annual fee only (20 percent). But overall, only 10 percent use this method, down from 14 percent in 1981.

At two percent, per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (86 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were $19,544, up from $18,800 last year, an increase of four percent, the same as in 1984. Compensation has risen 24 percent from the $15,660 average in 1981. During this five-year period, directors earning under $11,000 have decreased substantially from 27 percent to 11 percent. At the same time, the percentage of those earning $25,000 and over has more than tripled from seven percent five years ago to 24 percent in 1985 (Table 5B).

The $19,544 total average annual compensation for all companies comprises an annual fee of $13,629 and a per-meeting fee of $834, up from a $12,400 annual fee and a $724 per-meeting fee last year (Table 5B). As indicated, the per-meeting fee of $834 represents an increase of 15 percent in the past year.

As in the past, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earn an average of $23,601 (up from $23,300 last year); directors of the $5 billion-and-over companies earn an average of $25,926.

Industrials with under $200 million in revenues reported the largest five-year increase in compensation, rising 57 percent from $9,160 in 1981 to $14,426 in 1985 (Table 5C).

This year, the upper quartile average for all responding directors was $27,375 (Table 5C). The average upper quartile fees paid by billion dollar companies was $31,205.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving an annual fee only increased 32 percent over the past five years, from $13,600 to $17,982 (Table 5D). This year's average annual fee of $17,982 was also eight percent higher than the average fee reported in 1984.

Per-Meeting Fee Only (Two percent of the respondents)

The smallest category, respondents who compensate for meetings only, reported an average per-meeting fee of $614, a dip from last year's average of $810, but well over the 1983 per-meeting fee of $514.

7. Committee Compensation (Table 6)

Eighty-seven percent of all participants and 90 percent of the billion dollar companies offer additional compensation to their outside directors for serving on committees (Table 6A).

Seventy-three percent of the companies surveyed pay their committee members a per-meeting fee only. However, only 57 percent pay the committee chairmen in this manner.

Alternatively, 28 percent of the chairmen and 10 percent of the members receive annual fees only for committee participation. The percentage of companies paying an annual plus per-meeting fee for members serving on committees has declined from 30 percent to 10 percent in the last five years. Fifteen percent of the committee chairmen receive both an annual fee and a per-meeting fee.

Among the companies that paid a per-meeting fee only, fees range from a low of $500 for banks and other financial institutions to a high of $813 among retailers. The overall average was reported at $616 per meeting and rose to $682 for the billion dollar companies. As expected, fees for chairmen were slightly higher and rose to an average of $657 for all responding companies and to $721 for billion dollar corporations.

8. Additional Compensation Information (Table 7)

Thirty-four percent of participants indicated that they increased compensation for their outside directors during the past year (Table 7A). This was a drop from 42 percent in 1984, and significantly less than the 52 percent that increased pay five years ago. Over the past decade, companies have increased fees an average 19 percent more than they had projected.

Companies that increased compensation in 1985 did so by an average of $2,777, slightly higher than last year's average of $2,710. The largest increase was posted by retailers, who increased board compensation by

$4,492 compared with $2,520 in 1984 (Table 7A). Twenty-six percent of respondents project an average fee increase of $2,304 for 1986.

Eighty-four percent of this year's participants now believe that outside directors are adequately compensated, up from 69 percent in 1984.

Not surprisingly, retailers, who registered the highest one-year gains in compensation, reported that 96 percent of their ranks believe directors are adequately compensated.

Twenty-three percent of all respondents have outside directors who receive special consulting fees, the same as last year.

Average total compensation for the single highest paid director at each company was $27,424 this year for all board services exclusive of any consulting fees, a 12 percent increase over last year's average of $24,440, and 33 percent more than the $20,600 of five years ago (Table 7C). Twenty-three percent of the largest industrial companies ($5 billion and over) compensate their highest paid outside director with payment in excess of $40,000. The upper quartile average for the highest paid directors is $41,539, up from $34,380 five years ago.

This year, 53 percent of respondents reported that their board chairman had primary responsibility for establishing board compensation, up from 38 percent in 1984. Twenty-eight percent said the entire board is responsible. Thirty-three percent state that the compensation committee plays a role in establishing remuneration for board compensation (Table 7D).

Benefits

The practice of providing benefits for directors in addition to cash compensation continues to grow in popularity. Accident insurance (49 percent), travel expense reimbursement for spouses (27 percent) and life insurance (23 percent) are the most common (Table 7E). Matching educational gifts showed increasing growth, rising to 50 percent from 40 percent in 1982, when respondents were first questioned. Travel expense reimbursement was provided by 96 percent of the respondents and director's liability insurance was provided by 93 percent in 1985 compared with 91 percent and 87 percent, respectively, in 1984.

The option of deferring board fees until retirement is offered by a majority of responding companies, 68 percent, compared with 60 percent in 1984 and only 44 percent five years ago. It appears that each year this option is becoming more widely accepted and put into practice. Even the smallest industrials (under $200 million) reported that 47 percent have an income deferral plan, up from 26 percent last year. Of the largest companies ($5-billion and over) 80 percent now offer the option of deferring fees.

In 1985, 26 percent of all respondents provided retirement benefits for board members. Thirty-seven percent of the billion dollar corporations

included retirement programs compared with only 11 percent of companies with revenues under $200 million.

In all cases, length of board service was a primary factor in determining the extent of retirement benefits. As in 1984, the average length of service required to qualify was six years.

- Of the total number of chief executive officers responding, 29 percent believe outside directors should receive retirement benefits; 59 percent were not in favor of this option.

Stock Ownership

Eighty-one percent of all respondents and 84 percent of billion dollar companies stated that stock options should not be part of a director's compensation package. Nevertheless, about 75 percent of participating firms of all sizes believe that all directors should own some company stock. In fact, 94 percent of all outside directors do own company stock. The average number of shares owned by outside directors ranges from one to over 10,000 with an average of five directors per board owning from one to 1,000 shares of stock and an average of three per board holding more than 10,000 shares. Company size was not a factor.

Liability Insurance

Of the companies whose insurance policies were up for renewal in 1985, 68 percent responded that director liability insurance premiums were increased on an average of 362 percent (Tables 7F and 7H). Of the 26 percent that indicated there was no premium increase, a majority expect an increase when their present policy expires. Of all groups surveyed, a greater number of banks and other financial institutions experienced premium increases (78 percent), while insurance companies led all others in the percent of increase (431 percent). Twenty-seven percent of all respondents saw a decrease in total dollar coverage, which fell from $59 million to $34 million—a 42 percent drop (Tables 7G and 7H).

The decrease in total dollar coverage was greatest for retailers, who averaged a 55 percent decline (from $83 million to $37 million) compared with the 42 percent average for all respondents.

Nineteen percent of respondents are considering self-insurance. But for banks and other financial institutions, the figure stands at 32 percent.

9. Board Practices and Policies (Table 8)

Study respondents average eight regular board meetings per year (Table 8A). Financial institutions meet most frequently, averaging nine times per year. Although most meetings are held at corporate headquarters, 40 percent of the respondents reported holding at least one meeting at a branch subsidiary and 28 percent at a production site.

Time spent on board-related business, including time for review, preparation and travel in addition to meetings, continued to drop in 1985. Board time commitment fell from a 1984 average of 121 hours to a total of 114 hours this year (Table 8B).

Twenty-three percent of respondents reported devoting more than 130 hours to board-related activities.

Insurance board members increased the time spent on board activities from 111 hours in 1984 to 129 hours in 1985. The $5 billion-and-over corporations demanded 145 hours of their outside directors (Table 8B).

Overall, the larger the company, the more time devoted to board-related business.

Chairmen, predictably, spend considerably more time on board duties than their directors, devoting an average of 164 hours in 1985. Chairmen of retail companies reported a low of 107 hours, only two hours more than their directors' average of 105 hours. The chairmen of billion dollar corporations reported working an average of 180 hours. Time spent on board duties rose to 204 hours among the chairmen of the $5 billion-and-over companies.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of $173 per hour this year, up from $155 last year. The average number of hours devoted to board activities decreased in 1985, while average director compensation for the year increased. As in 1984, the highest hourly rate, $211 per hour, went to directors of retailing companies. Insurance companies paid the lowest, $136 per hour.

Eighty-one percent of respondents have a mandatory retirement age for directors, up from 73 percent last year. Only 56 percent of companies with revenues under $200 million have a mandatory retirement age, as opposed to 89 percent of the billion dollar companies and 93 percent of the $5 billion-and-over companies. For the 10th consecutive year, the average retirement age for outside directors remains 70. The average retirement age for inside directors is 67 and for board chairmen, 69.

10. Locating Outside Directors (Table 9)

Thirty-two percent of responding companies reported that outside directors resigned from their boards during the past year. Retirement was again the major reason for resignation, but this year it was cited by only 55 percent of the companies surveyed, down from 71 percent in 1984. There was an increase to 16 percent in the number of companies citing time demands as a reason for director resignation. The potential for conflict of interest was also cited by 16 percent. Companies experiencing the most director resignations were banks and other financial institutions (44 percent) and retail companies (43 percent).

Fifty-one percent of the respondents added one or more new outside directors to their boards during the past year compared with 44 percent in 1984. Twenty-one percent named new inside directors (Table 9A).

Board vacancies continue to be filled predominantly through recommendations by the chairman (81 percent) and by other board members (77 percent). Sixty-four percent used the nominating committee to identify and select new directors, up from 57 percent in 1984 (Table 9B). That percentage rose to 79 percent among the billion dollar corporations and to 80 percent among $5 billion-and-over corporations, an increase from 65 and 74 percent levels reached, respectively, in 1984.

Recommendations of other corporate officers (37 percent) and referrals from executive acquaintances (11 percent) continue to decline. On the other hand, the use of executive search firms is on the rise, with 11 percent of total respondents now using such services compared with six percent reported five years ago (Table 9B). Of the billion dollar companies, 15 percent used executive search to find new directors.

Ninety percent of the respondents cited broad management experience as the primary consideration for selecting prospective directors. Specific industry experience and strong financial skills were cited as important qualities by 33 percent and 32 percent, respectively. Personal stature was mentioned by 58 percent of the respondents, second only to broad management experience.

Twenty percent of this year's respondents stated that board candidates declined to serve on their boards, up from 17 percent last year (Table 9D). Banks and other financial institutions experienced the most refusals (24 percent).

Time commitment, cited by 60 percent of the respondents, is the predominant reason given for declining an invitation to serve on boards, up from 56 percent in 1984, but less of a factor than in 1981, when it was the primary cause for 84 percent. For companies with revenues of $5 billion and over, 72 percent mentioned time commitment as the primary reason for declining to serve on boards. A conflict of interest was cited by 21 percent of the respondents compared with 17 percent in 1984 (Table 9C).

11. Board Issues (Table 10)

When asked to rank the relative importance of the issues facing corporate boards today, respondents again ranked financial results as the single most significant issue (cited by 56 percent as ranking first, up from 50 percent last year). Seventy-six percent ranked it first or second and 83 percent ranked it among the top three most important concerns. Strategic planning was second, rated among the top three issues by 63 percent of respondents.

The other most significant issues include financing/capitalization (ranked as first, second or third by 26 percent), managerial succession (20 percent) and mergers/acquisitions (18 percent) (Table 10).

Corporations showed a drop in concern for day-to-day operations since last year from 30 percent to 24 percent.

When asked to rank the single most important issue that will be facing the board five years from now, respondents named financial results most frequently (57 percent), with strategic planning second (49 percent), followed by managerial succession (20 percent).

This continued emphasis on financial results is a reversal of last year's projections when 44 percent of the companies surveyed predicted that strategic planning would be the most important issue of the future. Financial results was ranked first by only 37 percent last year.

Interestingly, the issue of mergers/acquisitions was seen as increasing in importance only by banks and other financial institutions. Industry competition and financing/capitalization jumped from one percent and three percent to 14 percent and 19 percent, respectively.

Presently, financial results occupy the most board time (24 percent). The respondents estimate that 21 percent of board time is devoted to day-to-day operations. Strategic planning, even though companies believe its importance has lessened, took 13 percent of board time.

12. Participating Companies (Table 11)

—Size of Participating Companies (Table 11A)
—Stock Exchange of Participating Companies (Table 11B)
—Type of Participating Companies (Table 11C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	4	6	10
$200 million-$399 million	3	7	10
$400 million-$599 million	4	7	11
$600 million-$999 million	3	8	11
$1 billion-$2.999 billion	3	10	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	10	14
Banks and other financial institutions	4	16	20
Insurance companies	3	13	16
Retailers	4	9	13
Service companies	3	9	12
Average	4	10	14

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	79.6%	36.0%
No	19.4%	61.6%
No response	1.0%	2.4%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1981	% 1984	% 1985
Senior executive (other companies)	87.5%	87.5%	81.8%
Retired executive (other companies)	65.0%	69.4%	68.2%
Academician	50.3%	51.5%	54.5%
Retired or previously employed corporate officer	49.2%	46.0%	46.4%
Women	38.9%	44.7%	45.0%
Attorney (does not provide legal services for the company)	32.2%	33.5%	31.5%
Commercial banker	38.1%	31.3%	30.8%
Former government official	26.7%	30.8%	29.6%
Major shareholder (not officer of the company)	32.3%	29.2%	29.4%
"Professional" director	14.2%	17.9%	28.2%
Ethnic minority member	17.5%	26.2%	25.4%
Attorney (provides legal services for the company)	29.7%	28.4%	24.9%
Investment banker	27.4%	24.3%	24.2%
Non-U.S. citizen	15.0%	14.8%	14.0%
International executive (American)	8.9%	7.6%	8.7%
Employee representative	1.5%	—	2.2%
Consumer group representative	0.8%	—	1.7%

└ FIVE-YEAR TREND ┘

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	25.8%	31.3%
Senior executives (other company)	20.8%	19.9%
Former government officials	10.8%	10.8%
Attorneys (do not provide legal services)	8.1%	16.9%
Major shareholders (not officers of the company)	9.6%	—

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	% 1981	% 1984	% 1985
Audit	99.2%	97.6%	97.2%
Compensation	85.5%	85.5%	82.2%
Executive	79.7%	79.9%	78.2%
Nominating	57.8%	61.5%	59.2%
Finance	32.2%	37.8%	38.2%
Benefits	30.0%	33.6%	36.5%
Public affairs	11.2%	11.5%	10.6%
Corporate ethics	6.8%	7.0%	5.9%
Science/Technology	—	—	2.4%

FIVE-YEAR TREND

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	4	6
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public affairs	1	5	6
Corporate ethics	1	4	5
Science/Technology	1	3	4

4C. How many committee meetings were held during the past 12 months?

Committee	1981 Average Number of Meetings	1984 Average Number of Meetings	1985 Average Number of Meetings
Audit	3	3	3
Compensation	4	4	4
Executive	5	3	4
Nominating	2	2	2
Finance	5	4	5
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	3	3	2
Science/Technology	—	—	2

FIVE-YEAR TREND

TABLE 5—COMPENSATION

5A. How are board members compensated?

Compensation	% 1981	% 1984	% 1985
Annual plus per-meeting fee (see Table 5B and 5C for amounts)	83.0%	85.0%	85.6%
Annual fee only (see Table 5D for amounts)	13.9%	10.0%	10.4%
Per-meeting fee only	2.8%	3.2%	1.9%
No response	0.3%	1.8%	2.1%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

5B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1981	% 1984	% 1985
Under $5,000	10.0%	5.5%	4.4%
$5,000-$6,999	17.5%	8.6%	8.3%
$7,000-$10,999	31.6%	26.0%	21.6%
$11,000-$13,999	18.3%	18.2%	14.8%
$14,000 and over	22.6%	41.3%	50.9%
Unspecified	—	0.4%	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

Average Annual Fee	$9,900	$12,400	$13,629

PLUS

Amount Per Meeting	% 1981	% 1984	% 1985
Under $250	2.8%	0.8%	1.1%
$250-$499	19.5%	9.1%	7.1%
$500-$599	36.6%	27.7%	24.1%
$600-$799	41.1%	37.7%	38.3%
$800 and over	—	24.3%	29.4%
Unspecified	—	0.4%	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

Average Per-Meeting Fee	$680	$724	$834

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1981	% 1984	% 1985
Under $7,000	7.0%	1.9%	2.3%
$7,000-$10,999	19.9%	10.1%	8.7%
$11,000-$13,999	18.7%	13.4%	11.3%
$14,000-$16,999	15.7%	17.1%	13.2%
$17,000-$19,999	13.3%	16.1%	15.5%
$20,000-$24,999	18.3%	21.8%	25.5%
$25,000 and over	7.1%	19.6%	23.5%
TOTAL	100.0%	100.0%	100.0%
Average	$15,660	$18,800	$19,544

FIVE-YEAR TREND

5C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper Quartile Average
Industrials			
Under $200 million	$ 9,160	$14,426	$21,571
$200 million-$399 million	$11,680	$14,013	$19,088
$400 million-$599 million	$12,340	$15,492	$19,250
$600 million-$999 million	$14,380	$19,557	$27,033
$1 billion-$2.999 billion	$18,670	$21,949	$30,147
$3 billion-$4.999 billion	$21,590	$24,534	$30,095
$5 billion and over	$23,800	$26,126	$33,332
Banks and other financial institutions	$13,880	$18,751	$27,456
Insurance companies	$13,140	$17,462	$26,938
Retailers	$16,380	$17,490	$26,786
Service companies	NA	$22,141	$27,520
Average	$15,660	$19,544	$27,375

FIVE-YEAR TREND

5D. Annual Fee Only

Annual Fee Amount	% 1981	% 1984	% 1985
Under $7,000	9.5%	4.8%	5.0%
$7,000-$9,999	17.9%	11.1%	8.3%
$10,000-$11,999	14.3%	9.5%	5.0%
$12,000-$13,999	11.9%	11.1%	13.3%
$14,000-$15,999	13.1%	11.1%	11.7%
$16,000-$19,999	33.3%*	17.5%	16.7%
$20,000 and over	NA	34.9%	40.0%
TOTAL	100.0%	100.0%	100.0%
Average	$13,600	$16,700	$17,982

*Figure represents $16,000 and over.

FIVE-YEAR TREND

TABLE 6—COMMITTEE COMPENSATION

6A. Are outside directors paid an extra fee for serving on a committee?

	% 1981	% 1985
Yes	89.4%	86.8%
No	9.4%	9.9%
No response	1.2%	3.3%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

6B. If yes, how are they compensated?

	% 1981	% 1985
Per-meeting fee only	62.7%	73.2%
Annual plus per-meeting fee	29.3%	10.0%
Annual fee only	7.4%	10.2%
No response	0.6%	6.6%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. Has board compensation been raised within the last 12 months?

	% 1984	% 1985
Yes	41.9%	34.1%
No	53.9%	64.0%
No response	4.2%	1.9%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1984 Increase	1985 Increase
Industrials		
Under $200 million	$2,480	$1,961
$200 million-$399 million	$1,970	$2,350
$400 million-$599 million	$2,220	$1,900
$600 million-$999 million	$3,110	$1,768
$1 billion-$2.999 billion	$3,220	$2,640
$3 billion-$4.999 billion	$2,900	$2,656
$5 billion and over	$2,720	$3,434
Banks and other financial institutions	$2,830	$2,732
Insurance companies	$2,950	$3,171
Retailers	$2,520	$4,492
Service companies	$2,580	$2,709
Average	$2,710	$2,777

7B. Do you contemplate raising board compensation in the next year?

	% 1984	% 1985
Yes	21.6%	25.5%
No	71.6%	66.9%
No response	6.8%	7.6%
TOTAL	100.0%	100.0%

7C. How much did the highest paid outside director receive in 1985 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper Quartile Average
Industrials			
Under $200 million	$14,180	$17,162	$28,438
$200 million-$399 million	$15,020	$18,604	$29,452
$400 million-$599 million	$14,860	$18,745	$28,643
$600 million-$999 million	$18,500	$25,872	$39,133
$1 billion-$2.999 billion	$23,730	$27,680	$37,589
$3 billion-$4.999 billion	$28,810	$32,174	$40,929
$5 billion and over	$33,920	$42,468	$68,747
Banks and other financial institutions	$18,400	$26,135	$43,675
Insurance companies	$20,040	$27,878	$38,709
Retailers	$18,230	$25,092	$43,500
Service companies	NA	$27,176	$37,650
Average	$20,600	$27,424	$41,539

FIVE-YEAR TREND

7D. Who is primarily responsible for establishing board compensation?

	%
Chairman	52.8%
Compensation committee	33.0%
Entire board	27.7%
Nominating committee	9.3%
Executive committee	8.5%

7E. What benefits are included in the compensation plan for outside directors?

	% 1981	% 1984	% 1985
Travel expense reimbursement	83.3%	90.8%	95.8%
Directors' liability insurance	88.3%	87.0%	93.4%
Deferral of board fees until retirement	44.0%	60.3%	67.5%
Matching educational gifts program	6.7%*	48.2%	50.3%
Accident insurance	42.6%	47.2%	48.6%
Travel expenses for spouse	NA	26.7%	27.2%
Retirement income plan	12.0%	19.9%	25.8%
Life insurance	18.6%	22.9%	23.4%
Pension plan	NA	12.8%	19.2%
Medical insurance	8.9%	9.8%	10.6%
Stock options	NA	1.1%	3.1%

*Write-in response

7F. Have your directors' liability insurance premiums been increased?

	%
Yes	68.2%
No	26.1%
No response	5.7%
TOTAL	100.0%

7G. Has your total dollar coverage been decreased?

	%
Yes	27.3%
No	67.3%
No response	5.4%
TOTAL	100.0%

7H. If yes, by how much?

	Premiums % Increase	Dollar Coverage Decrease in Thousands From	To
Industrials			
Under $200 million	208%	$48,383	$43,365
$200 million-$399 million	504%	$21,667	$10,556
$400 million-$599 million	460%	$45,000	$20,833
$600 million-$999 million	391%	$22,860	$12,859
$1 billion-$2.999 billion	395%	$63,395	$45,252
$3 billion-$4.999 billion	276%	$43,333	$25,000
$5 billion and over	318%	$91,667	$56,806
Banks and other financial institutions	271%	$79,318	$39,705
Insurance companies	431%	$35,667	$22,667
Retailers	337%	$83,333	$36,667
Service companies	420%	$53,000	$34,250
Average	362%	$59,064	$34,131

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	17.1%
5-6	29.1%
7-9	21.1%
10-12	31.7%
13 and over	0.7%
No response	0.3%
TOTAL	100.0%
Average	8 meetings

8B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1984	% 1985
Under 40	2.7%	4.7%
41 to 70	19.3%	20.6%
71 to 100	22.6%	23.5%
101 to 130	16.4%	17.5%
131 to 160	9.0%	9.9%
161 to 190	7.1%	5.5%
191 and over	8.7%	7.4%
No response	14.2%	10.9%
TOTAL	100.0%	100.0%
Average	121 hours	114 hours

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	98	166
$200 million-$399 million	104	198
$400 million-$599 million	108	182
$600 million-$999 million	99	159
$1 billion-$2.999 billion	116	202
$3 billion-$4.999 billion	132	219
$5 billion and over	145	236
Banks and other financial institutions	99	160
Insurance companies	129	185
Retailers	105	198
Service companies	103	176
Average	114	196

TABLE 9—LOCATING OUTSIDE DIRECTORS

9A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	76.8%	46.9%
One	16.3%	31.0%
Two	2.9%	15.4%
Three or more	1.4%	4.2%
No response	2.6%	2.5%
TOTAL	100.0%	100.0%

9B. How are outside directors located for the board?

	% 1981	% 1984	% 1985
Recommendation of chairman	77.1%	78.0%	81.3%
Recommendation of board members	74.4%	74.7%	77.3%
Nominating committee	55.0%	56.9%	63.7%
Recommendation of other corporate officers	42.9%	38.2%	37.4%
Referral from executive acquaintances	12.2%	11.5%	11.4%
Executive search	6.3%	9.1%	10.9%
Bank referral	1.8%	1.2%	2.1%
Referral from attorneys	1.5%	1.2%	1.6%

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9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1981	% 1984	% 1985
Yes	20.5%	16.9%	20.4%
No	76.9%	73.5%	77.7%
No response	2.6%	9.6%	1.9%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1981	% 1984	% 1985
Time commitment	83.8%	56.1%	60.2%
On too many boards	NA	25.2%	28.8%
Conflict of interest	NA	16.8%	21.2%

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.3%	76.0%	83.0%
Strategic planning	19.2%	42.2%	62.8%
Financing/Capitalization	2.8%	9.5%	26.1%
Day-to-day operations	8.0%	17.1%	24.0%
Managerial succession	6.5%	12.1%	20.4%
Mergers/Acquisitions	1.3%	8.0%	17.8%
Industry competition	1.5%	7.3%	17.5%
Executive compensation	—	1.7%	5.4%
Corporate takeovers	1.5%	7.3%	4.3%
Shareholder relations	0.4%	1.0%	3.3%
Governmental relations	0.6%	1.7%	3.3%
Multinational issues	0.6%	0.9%	1.7%
Communications/Public relations	0.2%	0.3%	1.0%
White collar crime	—	0.2%	0.2%
Growing influence of institutional investor	—	—	0.2%

TABLE 11—PARTICIPATING COMPANIES

11A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	26	4.4%
$200 million-$399 million	43	7.3%
$400 million-$599 million	39	6.6%
$600 million-$999 million	45	7.6%
$1 billion-$2.999 billion	73	12.3%
$3 billion-$4.999 billion	36	6.1%
$5 billion and over	70	11.8%
Banks and other financial institutions	88	14.9%
Insurance companies	56	9.5%
Retailers	30	5.1%
Service companies	86	14.4%
TOTAL	592	100.0%

11B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.3%
American Stock Exchange	4.4%
Over-the-counter	14.3%
Other (private, mutual)	10.0%
TOTAL	100.0%

11C. Type of Participating Companies*

	%
Industrial	56.0%
Banks and other financial institutions	14.9%
Insurance	9.5%
Retail	5.1%
Service (new category)	14.5%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 592 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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